

Message Text

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ACTION NEA-16

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 FS-01 L-03 H-03 DRC-01 /141 W

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R 030520Z AUG 74

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 6101

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

LIMITED OFFICIAL USE SECTION 1 OF 2 ISLAMABAD 7457

E.O. 11652: N/A

TAGS: EFIN, PK

SUBJ: U.S. BANKS REQUEST FOR INCREASE IN US RUPEE DEPOSITS

REF: STATE 159023

1. SUMMARY. SENIOR REPS OF US BANKS ARE NOT INTERESTED IN MAKING APPROACH TO GOP TO REQUEST INCREASE IN USG RUPEE DEPOSITS WITHOUT STRONG SUPPORT OF EMBASSY. THEREFORE, BELIEVE THIS ISSUE DEAD ISSUE AS OF NOW. US BANKERS CONSIDER THAT WEIGHTED 3 PERCENT INTEREST ON US DEPOSITS ESSENTIAL TO OFFSET RESTRICTIONS PLACED UPON THEM BY GOP. EMBASSY SUPPORTS THIS VIEW. END SUMMARY

2. LAHORE CONGENOFF DISCUSSED SUBSTANCE
REFTEL WITH LAHORE BANK OF AMERICA (BOA) MANAGER PETER MITCHELL WHO STATED: "AFTER MAKING ALL THIS NOISE AND SEEING HOW MUCH DUST IT RAISED, I DON'T THINK WE WILL WANT TO PUSH." MITCHELL MENTIONED A SURVEY OF HIS DEPOSITS FOR FIRST HALF OF 1974 WHICH SHOWED THAT, BETWEEN DECEMBER 31, 1973 AND JUNE 30, 1974, BOA DEPOSITS ROSE BY 4.5
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PERCENT. HE TERMED THIS "INSIGNIFICANT," AND ASSERTED

THAT IT WOULD NOT SUSTAIN POSITIVE GROWTH. HE REPEATED EARLIER HOPE THAT USG RUPEE DEPOSITS WITH BOA COULD AT A MINIMUM BE INCREASED TO LEVEL OF DEPOSITS AT AMERICAN EXPRESS (AMEX) BY MOVING MONEY FROM STATE BANK OF PAKISTAN.

3. MITCHELL SAID THAT PERSONALLY HE WOULD BE WILLING TO PURSUE QUESTION FURTHER WITH EMBASSY AND EVEN GOP, BECAUSE IN HIS OPINION BOA HAD EXCELLENT RATIONALE FOR REQUESTING MORE USG DEPOSITS. MOREOVER, FOR TACTICAL REASONS HE THOUGHT IT MIGHT BE USEFUL TO APPROACH GOP AND THEN WITHOUT FUSS BACK DOWN IF RESISTED, HAVING PUT GOP ON NOTICE. HOWEVER, HE DOUBTED THAT OTHER BANKS WOULD BE INTERESTED IN PURSUING SUBJECT, PARTLY BECAUSE (HE BELIEVED) THEY HAD ACCEPTED "BLACK MONEY" DEPOSITS AND FEARED DISCLOSURE. (HE MAINTAINED THAT BOA HAD NEVER ACCEPTED "BLACK MONEY" DEPOSITS BECAUSE RISKS OUTWEIGHED BENEFITS.) MOREOVER, HE DOUBTED THAT HIS HEADQUARTERS WOULD WISH TO PUSH ANY FURTHER FOR MOMENT.

4. CONGENOFF KARACHI SPOKE INDIVIDUALLY WITH SENIOR REPS OF THE THREE US BANKS IN KARACHI. MICHAEL HARDING-JONES, WHO DIRECTING COUNTRY AFFAIRS OF FNCB UNTIL ARRIVAL OF NEW V.P. REACTED MOST NEGATIVELY TO OFFER OF USG ASSISTANCE AS OUTLINED REFTTEL. HARDING-JONES SAID HE DEFINITELY DID NOT WISH TO TAKE UP EMBASSY OFFER TO ARRANGE APPOINTMENTS IN ISLAMABAD. HE BELIEVED IT WOULD BE DETRIMENTAL AND INAPPROPRIATE FOR US BANKS TO APPROACH GOP DIRECTLY. WITHOUT STRONG USG INITIATIVE AND SUPPORT, POSITION US BANKS COULD ONLY BE WORSENER BY SUCH AN EFFORT. FNCB, HE SAID, HAD BEEN ENJOYING A VERY CONSTRUCTIVE RELATIONSHIP WITH STATE BANK IN KARACHI, WHICH HAD BEEN EXTREMELY GENEROUS IN INCREASING FNCB COTTON DISCOUNT CEILING FROM \$750,000 TO \$5 MILLION. THUS FNCB POSITION OVER SHORT TERM HAD EASED CONSIDERABLY. FROM VIEWPOINT OF FNCB HARDING-JONES CONSIDERED PROPOSED APPROACH BY BANKS TO AUTHORITIES IN ISLAMABAD AS ONE WHICH WOULD CONFUSE AND WORSEN HIS GOOD RELATIONS WITH STATE BANK HERE AND IN HIS OWN WORDS WOULD ONLY BE "A WASTE OF TIME."

5. NASIR CHINOY, WHO IS IN CHARGE BOA OPERATIONS KARACHI LIMITED OFFICIAL USE

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DURING ABSENCE V.P. SHAFIQ AHMED IN U.S., SAID THAT HE HAD BEEN IN RECENT COMMUNICATION WITH SHAFIQ AND THAT HE WISHED TAKE NO ACTION AT ALL UNTIL SHAFIQ'S RETURN. CHINOY ADDED, MOST CONFIDENTIALLY AND NOT FOR DISSEMINATION TO OTHER US BANKERS, THAT BOA HAD SEVERAL LARGE SCHEMES FOR FINANCING FERTILIZER AND OTHER PLANTS UNDER CONSIDERATION AND PRIVATELY HOPED THAT IF THESE SCHEMES WENT THROUGH A QUID PRO QUO ON USG RUPEE DEPOSIT INCREASE COULD THEN BE

WORKED OUT WITH GOP. IT WOULD THEREFORE APPEAR DOUBTFUL WHETHER BOA WOULD WISH TO AVAIL ITSELF OF EMBASSY OFFER TO MAKE APPOINTMENT NOW WITH GOP.

6. X.C. NIKITAS, AMEX V.P. TOLD CONGENOFF THAT AMEX WAS UNWILLING TO GO TO GOP EITHER ALONE OR IN CONSORT WITH OTHER BANKS AND EITHER WITH OR WITHOUT USG ASSISTANCE. AS FAR AS HE AND HIS HOME OFFICE ARE CONCERNED, HE SAID, THE WHOLE PROPOSED INITIATIVE IS NOW "A DEAD LETTER" AND AS PREVIOUSLY REPORTED HE PREFERRED TO "LET SLEEPING DOGS LIE." NIKITAS WAS RUEFUL CONCERNING AMEX'S ORIGINAL INVOLVEMENT IN DEMARCHE TO EMBASSY. HE SAID HIS DEPOSITS HAD INCREASED ABOUT 7 PERCENT BETWEEN JANUARY 1, 1974 AND APRIL BUT HAD NOW DECREASED BY ABOUT HALF THAT AMOUNT.

7. REGARDING SUBJECT OF POSSIBLE INCREASE OF INTEREST PAID ON USG DEPOSITS, US BANKERS HAD THE FOLLOWING COMMENTS: A. MITCHELL, BOA, STATED LOW INTEREST PAID TO USG WAS VITAL TO BANKS' OPERATIONS BECAUSE IT WAS SOLE MECHANISM WHICH ENABLED THEM TO REMAIN COMPETITIVE IN PAKISTAN LOAN MARKET. HE CLAIMED THAT AT PRESENT, HIS BANK IS PAYING 12 OR 13 PERCENT INTEREST ON MONEY IT LENDS AT 11 PERCENT. THIS HAS BEEN MADE POSSIBLE, ACCORDING TO HIM, ONLY BECAUSE OF LOW INTEREST PAID ON USG DEPOSITS.

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ACTION NEA-16

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 6102

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

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B. HARDING-JONES, FNCB, STATED SUCH AN INCREASE WOULD BE HIGHLY DETRIMENTAL TO ENTIRE US BANKING POSITION IN PAKISTAN AS WELL AS TO US FIRMS WHICH BANKS SERVED. IT WOULD REDUCE REMITTABLE PROFITS OF US BANKS TO POINT WHERE THERE WOULD BE LITTLE REASON TO CONTINUE IN BUSINESS HERE.

C. CHINOY, BOA, STATED IF USG CHOSE TO INCREASE INTEREST RATE, IMMEDIATE EFFECT WOULD BE MUCH LOWER PROFITS FOR US BANKS AND CONSEQUENTLY SMALLER DOLLAR REMITTANCES TO US. CHINOY SAID THAT BOA HAD BEEN BORROWING HEAVILY FROM HOME OFFICE AT CONCESSIONARY RATES IN ORDER TO MEET COMMITMENTS HERE FOLLOWING REDUCTION LEVEL OF CALL MONEY AVAILABLE AFTER JANUARY 1, 1974. CHINOY ADDED, THAT, OWING TO 35 PERCENT LIQUID RESERVE REQUIREMENT, PROPOSED 8 PERCENT INTEREST RATE WOULD IN REALITY ACCOUNT TO EFFECTIVE INTEREST RATE OF 10.4 PERCENT ON LOANABLE MONSM. LARGE PART OF BOA CUSTOMERS WERE US FIRMS AND IF BOA'S PROFITS SQUEEZED BY INCREASE IN USG INTEREST THEN BOA WOULD IN TURN BE FORCED RAISE INTEREST RATE FOR PRIVATE US BORROWERS, THEREBY REDUCING THEIR OWN DOLLAR REMITTANCES TO US. IN ESSENCE HE CONSIDERED WHOLE PROPOSAL RAISE INTEREST RATE AS DETRIMENTAL TO US PRIVATE LIMITED OFFICIAL USE

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SECTOR INTERESTS AND OF LITTLE BENEFIT TO USG.

D. X.C. NIKITAS, AMEX, STATED THAT AN INTEREST RATE INCREASE WOULD EFFECTIVELY PUT AMEX OUT OF BUSINESS IN PAKISTAN. AN INCREASE OF EVEN 2 PERCENT IN THE EFFECTIVE INTEREST RATE TO THE USG ON ITS DEPOSITS WITH AMEX WOULD EAT UP ALL CURRENT AMEX PROFITS. NIKITAS STRONGLY DENIED THAT HE HAD OFFERED ON BEHALF OF AMEX TO PAY 8 PERCENT ON NEW USG DEPOSITS AND ALSO THAT THERE WAS ANY EXPECTATION OF A SUBSTANTIAL INCREASE IN PROFITS OF US BANKS THIS YEAR.

9. WITH REGARD TO THE QUESTION OF THE RATE OF DEPOSIT INCREASES, HARDING-JONES OF FNCB CLAIMED THAT HIS BANK'S RATE OF GROWTH OVER LAST SIX MONTHS HAS BEEN ABOUT 5 PERCENT WHICH WAS LESS THAN NORMAL. CHINOY OF KARACHI BOA CLAIMED THAT HIS BRANCHES' GROWTH RATE HAS BEEN LOWER THAN LAST YEAR -- ABOUT 3 PERCENT IN LAST SIX MONTHS AS COMPARED TO 8 PERCENT FOR ALL OF LAST YEAR. NIKITAS OF AMEX STATED THAT HIS BANK DEPOSITS HAD INITIALLY INCREASED ABOUT 7 PERCENT BETWEEN JANUARY 1, 1974 AND APRIL BUT HAD NOW DECREASED TO HALF THAT AMOUNT.

10. COMMENT. IN VIEW OF ABOVE REACTIONS OF SENIOR REPS OF US BANKS, EMBASSY BELIEVES QUESTION OF INCREASING USG

DEPOSITS IS DEAD ISSUE AS OF NOW. REGARDING POSSIBLE INCREASE IN INTEREST RATE PAID BY US BANKS ON THESE USG ACCOUNTS, EMBASSY AND CONGEN KARACHI ARE SYMPATHETIC WITH THE BANKS' OPPOSITION TO ANY CHANGE IN THE PRESENT ARRANGEMENT. THE GOP PROHIBITION AGAINST FOREIGN BANKS OPENING NEW BRANCHES, THE RESTRICTIONS PLACED UPON THE BANKS NOT TO TAKE ADVANTAGE OF BANK NATIONALIZATION ACTION TO INCREASE UNDULY THEIR DEPOSITS, AND THE LOW STATE OF THE INTER-BANK CALL MARKET, HAVE TOGETHER UNQUESTIONABLY LIMITED THE GROWTH RATE OF THESE BANKS. MOREOVER, US BANKS ARE CURRENTLY PAYING HIGHER INTEREST RATES THAN CENTRAL BANK ON USG DEPOSITS. IN OUR VIEW IT IS VERY MUCH IN THE OVERALL US INTEREST THAT WE HAVE VIABLE US BANKS IN PAKISTAN. ASIDE FROM THEIR IMPORTANT ROLE IN FACILITATING US TRADE AND INVESTMENT, THESE BANKS ARE MAKING A STEADY CONTRIBUTION TO THE US BALANCE OF PAYMENTS. (THEIR PROFIT REMITTANCES LAST YEAR TOTALED ABOUT \$1.5 MILLION.) IN SUM, WE BELIEVE THAT WE SHOULD NOT TRY LIMITED OFFICIAL USE

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TO COMPEL BANKS AT PRESENT TIME TO PAY HIGHER INTEREST ON USG DEPOSITS.

11. THE JUSTIFICATION PRESENTED ABOVE FOR MAINTAINING THE PRESENT WEIGHTED AVERAGE INTEREST RATE OF THREE PERCENT IN USG DEPOSITS IS SIMILAR TO THE RATIONALES GIVEN BY THE EMBASSY IN 1972 AND 1973 WHEN THE BANKS WERE ALSO FACING DIFFICULTIES. SHOULD DEPARTMENT WISH TO REVIEW OHOSE RATIONALES, SEE DECISION IN SECSTATE 141748 (AUGUST 1972) AND CABLE REFERENCES MENTIONED THEREIN, AND EMBASSY OM TO DEPARTMENT (BF/FS) DATED APRIL 11, 1973 ON SUBJECT AFIN: DISBURSING OFFICER INTEREST BEARING ACCOUNTS. LUPPI

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Message Attributes

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